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CHANNELS OF DISTRIBUTION IN A DEVELOPING COUNTRY:
THE CASE OF TURKEY

1. INTRODUCTION

Although the subject of channels of distribution is not fully developed in theory, it is still one of the most analyzed subjects, especially in comparative marketing studies. For example, if the subject index of the Journal of Marketing is reviewed it can be easily seen that the understanding of channels of distribution in different countries has been treated as an important issue for years. Unfortunately, there has not been a valid, reliable, unique study done to determine and understand the present status of channels of distribution in all sectors of the Turkish economy. There are some studies which have limited content and/or validity and reliability. This paper aims at evaluation of the basic results of these studies and development of some conclusions from their findings and our observations.

Turkish economy has created 1,195 billion TL. Gross National Product (GNP) in current prices in 1978. Per capita income was 27,699 TL¹. Turkish economy has faced very high inflation rates about 40%² especially during last two years. In addition to the high population growth, high inflation rates also stimulated the consumption. Thus the most typical characteristic of the Turkish economy is that the demand exceeds supply for industrial and consumer products. 25% of the GNP was created by the industrial sector, 22% by the agricultural sector, 14% by

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¹ These are estimates not exact figures. In 1978, officially, 25 TL. was U.S. \$ 1 (Summary of *Monthly Foreign Trade*, State Institute of Statistics, Ankara 1978).

² See: 1977-VII-VIII *Monthly Bulletin of Statistics*, State Institute of Statistics, Ankara 1978.

the commercial sector and 38% by other sectors. The services sector constitutes the main category in this group. Thus almost a half of GNP is created by commercial and services sectors. Almost 62% of the population is economically active of which 57% is working in agriculture, 21% in industry and 22% in the services. Turkey has a mixed economy in which the public and private sectors almost have the equal share in manufacturing industries. During the first 11 months of 1978, the value of imports totaled \$ 5.2. billion and exports \$ 4 billion³. The balance of foreign trade is probably the most vital problem for the economy. The product mix of the manufacturing industries was 48% for consumer goods, 39% for intermediary goods, and 13% for investment goods in 1978.

The marketing oriented expenditures have a very significant place in the Turkish economy. Of course, it is not easy to judge this situation as good or bad. But from the high unemployment figures, almost 20% during 1978, this may be interpreted as higher marketing costs too. Because the ability of an excessive number of persons to subsist in commercial occupations necessarily implies that the cost marketing is higher than the necessary level⁴.

It should be remembered that all of the marketing institutions are a function of economic, social, legal and other environmental conditions. Therefore, there is no unique distribution system for all economies⁵. Dholakia and Dholakia have evaluated one of the important environmental factors, namely the public policy, in terms of distribution in advanced capitalist countries, in socialist countries, and in Third World countries⁶. They conclude that distribution is becoming an important concern of public policy in all socio-economic contexts. But unfortunately in the Third World countries, the policymakers have focused their attention on the distribution sector only recently. This is the case of Turkey too. They also propose that none of the models developed for advanced economies provides much guidance in modernising and regulating the distribution system when the level of economic development is very low.

³ See: Summary of Monthly Foreign Trade.

⁴ L. E. Preston, *The Commercial Sector and Economic Development*, [In:] *Markets and Marketing in Developing Economics*, Homewood III, Richard D. Irwin, Inc. 1968, p. 20.

⁵ L. Currie, *Marketing Organization for Undeveloped Countries*, [In:] *Markets and Marketing...*, p. 128.

⁶ N. Dholakia, R. R. Dholakia, *A Comparative View of Public Policy Toward Distribution*, „European Journal of Marketing” 1978, vol. 12, No. 8, pp. 541—553.

Although in several studies a very high proportion of company managers have mentioned channels of distribution as the most important decision area, the policy-makers have ignored this fact in formulating the public policy toward distribution. This can be observed by examining the five-year economic development plans of the Turkish Republic. Even in the last, fourth plan (1979—1983), the importance of this sector has not been fully realized.

2. CHANNELS OF DISTRIBUTION IN TURKEY

In examining the channels of distribution in Turkey a sectoral classification will be used. In this classification three main sectors, namely, industrial goods, consumer goods and services, will be distinguished for the purpose.

CHANNELS OF DISTRIBUTION FOR INDUSTRIAL GOODS

More than half, 54⁰/₀, of the production of manufacturing industry, which accounted for 16⁰/₀ of the GNP in 1978, are industrial goods. However, there are some exceptions, the exclusive distribution through selling agents and/or selling personnel is a typical characteristic of the distribution policy of this sector as shown in Fig. 1.

Compared with the manufacturing firms, domestic or foreign, selling agents are not sufficiently powerful. Therefore manufacturers are the leaders in their channels of distribution. Co-operation between manufacturers and selling agents is a very significant condition for the effective operation of the channel. Almost all of the functions except financing, warehousing and transportation, to some extent, are performed by the manufacturers. Selling agents are the major source for financing the manufacturers. The service sector supplies to the purchasers mostly are not sufficient.

However, theoretically in most cases the manufacturers have price lists for their products and allow certain percentage of functional discounts to the selling agents, the selling agents charge much higher

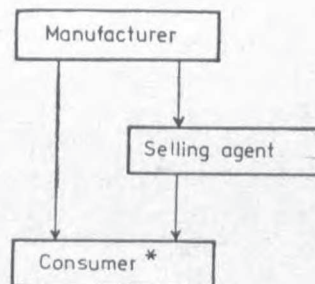


Fig. 1. Typical distribution channels of industrial products in Turkey

* The term consumer used in this paper has a very broad sense. It includes both individual and institutional purchasers.

prices to the purchasers because of the imbalance between supply and demand for these products. Therefore, theoretically cost-oriented, cost-plus pricing seems to be the dominant pricing approach. For example Istanbul Chamber of Commerce has proposed average gross profit margins for retailers (see: Table 1). But, in the reality, demand orien-

Table 1
Average gross profit margins of retailers proposed by Istanbul chamber of commerce for 1976—1978 period

Type of goods	Ranges of average profit margins (%)	Means (%)	Standard Deviations (%)
Food and drinks	4—25	15.3	5.4
Clothing	13—32	18.6	4.6
Housing	5—25	16.2	4.0
Construction	3—20	11.3	5.0
Electrical	4—27	12.8	4.8
Other equipment	1.5—50	17.9	8.2
Hotels and restaurants	12—100	35	19.2
Transportation	10—40	24.5	6

Source: Ortalama Kâr Hadlevi, Istanbul Chamber of Commerce, 1977.

Note: Average gross profit margins which are external rates, increase depending upon the degree of luxuriousness of products. For example in food and drinks group, profit margin is determined as 4% for bread and 25% for soft drinks.

ted pricing is applied whenever conditions allow. This situation is even more valid for the importing agents which are located mostly in Istanbul. Since personal selling and some sales promotion activities are the most important promotional tools, almost nothing has been spent for advertising, except for some unimportant prestige advertising.

Another important observation is that in construction industry, especially building equipment industry, high level of vertical integration of manufacturers through general distributors and retailers started in 1978.

CHANNELS OF DISTRIBUTION FOR SERVICES

Services including banking, insurance, tourism, transportation, communication, health, education, commerce and all other marketing activities have the greatest proportion in the Turkish GNP. The rate of increase of this sector has also been the highest during the last two years. This is because of the high unemployment rate and the high rate of migration to urban areas. Thus the increasing number of people have been becoming salesman, mostly peddlers in consumer products

sector, especially for fresh foods. Banking and insurance are the most important subsectors, especially in terms of employment in the service sector.

In Banking there are a total of 38 banks operating in Turkey, 10 of them being public banks, 23 of them being private national banks, and 5 of them being international banks. Competition between these banks to attract more deposits caused an increase in the number of branches and heavy advertising expenditures. At the beginning of 1978 there were 5,209 branches of commercial banks in Turkey. This shows a tendency of intensive distribution in banking sector. Competition in terms of service differentiation has been neglected in this sector except for some efforts to develop some new services during the last few years, such as express service, credit cards, etc. Banks have been accounting for almost 20% of the total advertising expenditure in Turkey, which was 2.1 billion TL in 1977, that is, 0.25% of GNP, to advertising. This sector is also the leading sector in advertising expenditure. It should be mentioned that up to now advertising expenditure has been exempted from taxes. A new law is proposed to increase the tax coverage including advertising expenditure. It is expected that even this change will probably not effect the use of advertising by financially powerful firms including banks⁷.

There were a total of 36 insurance companies at the beginning of 1979. 21 of these were Turkish and the rest were foreign companies. Insurance services are supplied to the institutional and personal customers through licensed insurance sales personnel or insurance agents in Turkey. During the last few years, selling of insurance through banking branches has become an increasing practice as a result of financial consolidations between banks and insurance companies. Thus, most of the bank branches become selling agents of the insurance companies. The proportion of total insurance sales through selling agents has significantly increased because of this new development. One of the less developed areas in terms of marketing applications in Turkey is insurance. Most of the insurance types, such as life insurance, fire insurance, are still very new services to the Turkish consumers. As a sector, insurance is still new and most of the people are not convinced of the benefits of insurance. In spite of this fact, no cooperative advertising and public relations campaigns have been undertaken by these companies. Besides the bank branches, insurance agents are small individual companies. Communication and control seem to be

⁷ See: K. Kurtulus, *Reklamar Vergilendivilmali mi?* Istanbul, „Milliyet Gazetesi”, 11 Ocak 1979.

the important problems in this sector. Since the quality of the service is a very important determinant of consumer choice behaviour in service sectors, insurance companies should formulate their marketing policies accordingly. Unfortunately this is also generally neglected in Turkey.

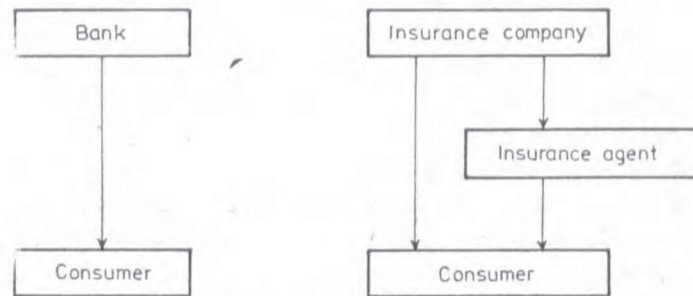


Fig. 2. Typical distribution channels of banks and insurance companies

Typical channels of distributions of banking and insurance services are shown in Fig. 2. Mostly the sales concept is dominant in this oligopolistic sector.

CHANNELS OF DISTRIBUTION FOR CONSUMER GOODS

Almost 2/3 of the per capita income has been spent for private consumption and 4/5 for total consumption in Turkey during 1976. This is valid for almost all developing countries. This sector will be analysed within two headings, namely, nondurable consumer goods, especially foods, and durable consumer goods.

As mentioned earlier, much of the research on the distribution channels in developing economies has centered on food industry. This is also the case for Turkey since more than 40% of the consumer's budget is spent on food in the country⁸.

The distribution systems for foods in Turkey are not developed sufficiently. Especially in terms of functions that intermediary firms perform, these firms are only involved with the physical flow of the goods⁹. Kaynak mentioned that various types of channels of distribution have been used in food distribution in Turkey as presented in Fig. 3. He also observed that in food distribution there is not enough

⁸ See: M. Oluç, N. Neyzi, E. Gönensay, E. J. Endvight, *Wholesaling in Turkey*, [In:] *Comparative Marketing-Wholesaling in Fifteen Countries*, (ed.) Bartels R., Homewood, Ill., Richard D. Irwin, Inc., 1963, pp. 60-90.

⁹ See: E. Kaynak, *Supplier Environment of Food Retailers in a Developing Economy*, „International Journal of Physical Distribution” 1976, vol. 6, No. 3, pp. 152-154.

specialization among channel members. Thus allocation of distribution functions among members of the channel is arbitrary. On the wholesaling level the exact number of wholesalers is not known but it can be said that the number is very high in this sector since the total number of wholesalers was 22,650 and this number was 173,044 for retailers in 1970 in Turkey.

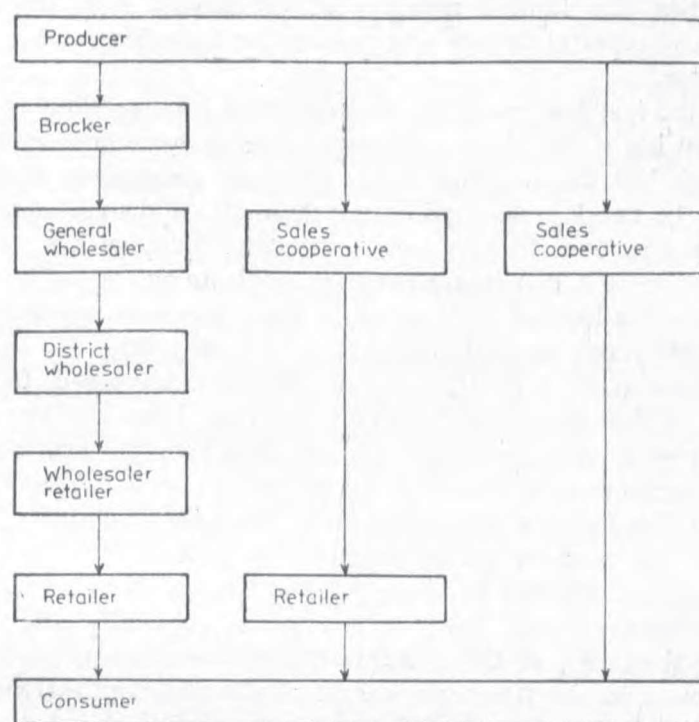


Fig. 3. Typical distribution channels of foods in Turkey general

At the retail level, there are so many different types of retailers, such as supermarkets, markets, grocery stores peddlers, etc. Retailers are much smaller than wholesalers. Financing of retailers is the most important function of wholesalers. Brokers are also the main financing source for producers, especially for vegetables and fruits. Most of the food producers are working on a small scale except the canned food producers. This also causes the increase in the number of channel members. Significant increases in the number of agricultural, sales and marketing cooperatives have been observed during the last few years, in 1976 about 2,000 cooperatives were established ¹⁰.

¹⁰ See: 1977 *Statistical Yearbook of Turkey*, State Institute of Statistics, Ankara 1978, p. 399.

A new project called TANSA is proposed by the government to distribute foods directly to the consumers by integrating the production cooperatives and municipal retail selling stores. A study revealed that more than 60% of the selling price of fresh tomatoes has gone to the channel members. Almost all of the marketing functions are carried out by the intermediary institutions in this sector. In addition to these characteristics, the limited mobility of consumers, high frequency of purchases and cultural factors also account for long distribution channels in this sector.

During the last few years the importance of supermarkets is growing; especially in big cities. New supermarket chains have been entering the food market. But the coverage is one of major constraints in this development¹¹. In rural areas traditional channels of distribution are still the dominant system. In this sector, the drug industry has its own distribution system. It distributes drugs through its own sales-force and/or drug wholesalers located in Istanbul to drug stores. In summary, intermediary institutions in food distribution are very large in number, financially powerless institutions, and they are supposed to perform almost all of the marketing functions, such as, handling, warehousing, financing, risk taking, standardization, etc. But they perform only a few of these functions as a result of their current status. These intermediary institutions should be reorganized, financially reinforced and stimulated to use modern management techniques.

The consumer durable products have gained great importance in the Turkish economy during the last few years, especially after 1970. In 1978, more than 16% of the consumer budgets was spent for these products. Changes in the life style, very fast urbanization, marketing activities and high inflation have stimulated the demand for consumer durables. The majority of these industries are assembly industries despite the fact that, in monetary terms, about 70% of the parts are produced in the country. Thus, one of the most important characteristics of this industry is its heavy dependence on foreign resources, i.e. imports. Irregularities in the production of this industry are another important characteristic. Although the retail prices are controlled by the Ministry of Industry, higher prices can be charged by retailers as a result of the imbalance between supply and demand in terms of place and/or time. This can be done directly or indirectly by retailers. The most common application of the indirect way is to charge very high interest rates for credits. Since most of the sales are on credit, this is

¹¹ See: A. Goldman, *On the Reach of Consumers and the Modernization of Urban Food Retailing in Developing Countries*, „Journal of Marketing” October 1974, p. 16.

an important practice. These interest rates can be as high as 70% annually in refrigerator retail sales.

Another characteristic of this sector is mainly the financially powerful producer and exclusive distribution through general distributors that are generally vertically integrated with producers, and selling agents at the retail level. There is an unimportant exception to this distribution system that is selling directly to consumers through producer owned retail stores.

The vertical integration including selling agents is also observed in this industry. Producers are the channel leaders in this industry. Handling, warehousing and transportation functions are performed by the general distributors whereas pricing, customer services and promotional functions are performed by the producers, and the other marketing functions, such as, contact, financing of customers and delivery are performed by the selling agents.

A typical distribution channel in this industry can be represented as in Fig. 4. Heavy promotional campaigns, mostly advertising campaigns, are undertaken by producers to increase the sales. Mostly the sales concept is accepted and applied in this oligopolistic industry. In this regard, it is observed that the needs and wants of consumers are not taken into account by most of the firms; in one study this proportion was determined at 81%, in product planning and development. In summary, typical characteristic of the economy of scarcity are observed in this industry¹².

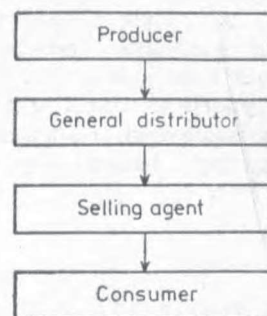


Fig. 4. Typical distribution channels of consumer durables in Turkey

3. CONCLUSION

As a summary, it can be said that the sales concept is still dominant in the Turkish economy as a result of existing economic, social, political and other environmental conditions.

Channels of distribution are mostly very complex. Most of the marketing functions are left to the channel members. But in most cases they are not performed sufficiently because of their financial, physical and managerial constraints.

¹² See: C. A. Saml, *Wholesaling an Economy of Scarcity: Turkey*, „Journal of Marketing” July 1964, p. 58.

Consumers are not protected. Standardization, quality control, services, advertising and price discrimination are the major areas for the consumer protection.

A significant modernization in distribution channels has taken place during the last year, especially after 1970, through the introduction of department stores and super markets. It is expected that this development will continue in the future.

Kemal Kurtulus

KANAŁY DYSTRYBUCJI W KRAJACH ROZWIJAJĄCYCH SIĘ.
PRZYKŁAD TURCJI

W oparciu o podstawowe dane dotyczące gospodarki tureckiej, autor dokonał charakterystyki kanałów w systemie dystrybucji w Turcji. Podkreślając złożoność i kompleksowość tej problematyki, autor omówił zmiany w kanałach dystrybucji w Turcji w ostatnich latach zmierzające do zwiększenia ich gospodarczo-społecznej efektywności. Zmiany te mieszczą się w ogólnej tendencji do modernizacji handlu w gospodarce tureckiej i stanowią tej modernizacji szczególny wyraz.